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<u>Allies Close to Agreeing on Response to Soviet Freeze Proposal</u>

The NATO allies have accepted in principle a US suggestion on how the West should reply to the freeze proposal submitted last November by the Soviet delegation at the force reduction negotiations. The fifth round of the talks in Vienna begins tomorrow.

The Soviets proposed that each direct participant in the force reduction talks freeze the size of its forces in Central Europe for the duration of the negotiations.

The US has suggested that the West inform the Soviets that their proposal is unacceptable; that a freeze agreement should be negotiated only as part of an agreement to reduce forces; that a freeze could come into effect when a reduction agreement is signed; and that discussions of reductions should have priority.

The US formulation is a compromise that takes into account the desire of the West Europeans not to appear to reject the Soviet proposal flatly. Some of them had wanted to make a specific counterproposal because they feared a possible adverse public reaction if they rejected the Soviet offer out of hand. The US suggestion is designed to prevent the Vienna talks from being diverted from their main task of negotiating reductions in forces.

The Western allies were unable to agree on a definitive reply to the Soviet proposal during the last round of negotiations.

All the NATO allies welcomed the US suggestion for a compromise formulation, but the West

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German representative in NATO's senior political committee has suggested amendments. The committee will continue its deliberations this week, and the North Atlantic Council will probably consider the matter at a special meeting on January 31.

The Western Allies hope to reach final agreement by that time and to make their definitive reply as early as possible in the new round of negotiations. [redacted]

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Italian Employers Pay High Price for Labor Peace

Representatives of Italy's major labor unions and employers reached agreement over the weekend on the most contentious issue dividing them in recent negotiations--the question of wage increases linked to the cost-of-living index. By yielding to most of the unions' major demands, the employers paid a high price for a tenuous labor peace.

Under the old system, different categories of workers were compensated at varying rates for each percentage point increase in the cost-of-living. With the new agreement, the unions gained:

--an increase in the cost-of-living allowance. All employees will eventually receive the same amount now given to the highest-paid category of workers.

--a $19 lump sum payment to all workers to compensate for past cost-of-living erosion of real incomes; the unions had demanded $31.

--a $3 increase in the family allowance, bringing the compensation for each member of a worker's family to $15.

Settlement of the wage escalation dispute came on the heels of an agreement last week on increased unemployment compensation. Changes in the wage supplement fund and increased employer contributions to it will enable those on reduced work weeks to receive 100 percent of their salaries. Laid-off workers will now receive compensation amounting to 93 percent of their incomes for up to a year; they currently get 66 percent for up to three months on a renewable basis.

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Another union demand--improved pension payments for the lowest paid individuals--was approved several weeks ago.

Although the government has given its blessing to the latter two agreements, the accord on cost-of-living increases may cause concern among economic officials. Treasury Minister Colombo, for example, has warned that the upward revision of the cost-of-living payments system could negate the effects of the five-month-old austerity program. Deputy Prime Minister La Malfa, moreover, has traditionally opposed such concessions to labor. He has frequently clashed with the Socialists, who support the government in parliament, over such issues.

The agreements will add billions of dollars to industry's costs at a time when demand is flaccid because of high prices and job uncertainty. If employers are forced to reduce profits instead of raising prices to pay for increased labor costs, their financing ability could be sharply curtailed and investment could drop more than the 4.5 percent we have been expecting.

In the long run, the three agreements could jeopardize the government's goal of holding total wage costs to 16 percent this year. The package will add at least 7 percent to the average working man's pay. More than half of the industrial labor force's contracts, however, will be up for renewal this year, including those of the more militant unions. There is no evidence that the unions have promised to moderate their demands. The renegotiation of these contracts, improved wage escalation benefits, a high inflation rate, and already programmed wage hikes could easily combine to push the total wage bill over the 16 percent mark. [redacted]

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